

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Milan	County Washtenaw/Monroe
Fiscal Year End 6-30-2006	Opinion Date 11-7-2006	Date Audit Report Submitted to State 12-22-2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

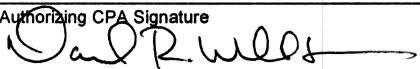
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Post, Smythe, Lutz, and Ziel, LLP		Telephone Number 734-453-8770		
Street Address 1034 West Ann Arbor Trail		City Plymouth	State MI	Zip 48170
Authorizing CPA Signature 		Printed Name David R. Williamson		License Number 1101012382

**CITY OF MILAN**  
**Washtenaw and Monroe Counties, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended**  
**June 30, 2006**

CITY OF MILAN  
For the Year Ended June 30, 2006

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For the Year Ended June 30, 2006

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## FINANCIAL SECTION

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*Certified Public Accountants*

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## Independent Auditor's Report

November 7, 2006

To the Honorable Mayor and  
Members of the City Council  
City of Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Milan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

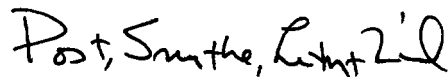
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and Members of the  
City Council  
City of Milan, Michigan

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milan's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants



Office of Clerk/Treasurer  
Sherry L. Steinwedel, CMC

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## Management's Discussion and Analysis

As management of the City of Milan, we offer readers of the City of Milan's financial statements this narrative overview and analysis of the financial activities of the City of Milan for the fiscal year ended June 30, 2006.

### Financial Highlights

- The assets of the City of Milan exceeded its liabilities at the close of the most recent fiscal year by \$20,851,146 (*net assets*). Of this amount, \$1,030,619 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$1,230,120, increase of \$584,196 in comparison with the prior year. Approximately 48% of this total amount, \$593,010 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$67,490, or 1 percent of total general fund expenditures.
- The City of Milan's total debt decreased by \$37,988 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Milan's basic financial statements. The City of Milan's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Milan's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Milan's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Milan is improving or deteriorating.



The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Milan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Milan include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Milan include the water and sewer system, public transit, storm sewer, and Mooreville sewer.

The government-wide financial statements include not only the City of Milan itself (known as the *primary government*), but also a legally separate Brownfield Redevelopment Authority, and other "nonmajor" component units for which the City of Milan is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Milan, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Milan can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and

the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Milan maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Arkona Road Special Assessment Debt Service Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Milan adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

***Proprietary funds.*** The City of Milan maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Milan used the enterprise fund to account for its water and sewer activity and the public transit fund as well as the other "nonmajor" proprietary funds. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Milan's various functions. The City of Milan uses an internal service fund to account for its fleet of vehicles and other equipment. Because both of these services predominantly benefit governmental rather than business-type functions they have been included within *governmental activities* in the government-wide financial statements.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Milan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-46 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Milan's progress in funding its obligation to provide pension benefits to its employees. This information can be found on page 47 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining statements can be found on pages 48-61 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Milan, assets exceeded liabilities by \$20,851,146 at the close of the most recent fiscal year.

By far the largest portion of the City of Milan's net assets (90 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Milan used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Milan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets					
	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 3,894,295	\$ 2,765,325	\$ 6,552,629	\$ 13,957,683	\$ 10,446,924	\$ 16,723,008
Capital Assets	8,364,279	8,498,053	22,438,351	14,562,041	30,802,630	23,060,094
Total Assets	12,258,574	11,263,378	28,990,980	28,519,724	41,249,554	39,783,102
Long-term Liabilities	2,462,708	2,001,017	13,816,664	14,408,666	16,279,372	16,409,683
Other Liabilities	2,777,271	2,157,860	1,341,765	413,818	4,119,036	2,571,678
Total Liabilities	5,239,979	4,158,877	15,158,429	14,822,484	20,398,408	18,981,361
Net Assets:						
Invested in Capital Assets,						
net of related debt	5,901,571	6,572,200	12,845,268	12,142,785	18,746,839	18,714,985
Restricted	637,110	146,483	436,578	512,513	1,073,688	658,996
Unrestricted	479,914	385,818	550,705	1,041,942	1,030,619	1,427,760
Total Net Assets	\$ 7,018,595	\$ 7,104,501	\$ 13,832,551	\$ 13,697,240	\$ 20,851,146	\$ 20,801,741

An additional portion of the City of Milan's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,030,619) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year the City of Milan is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$49,405 during the current fiscal year as shown in the table below:

	Governmental Activities		Business Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for Services	\$ 1,305,820	\$ 1,400,923	\$ 1,657,769	\$ 1,631,021	\$ 2,963,589	\$ 3,031,944
Operating Grants	498,160	478,747	303,152	260,056	801,312	738,803
Capital Grants	1,456	320,597	419,011	565,319	420,467	885,916
General Revenues:						
Property Taxes	3,315,945	3,123,931	-	-	3,315,945	3,123,931
State Shared Revenues	445,847	449,417	-	-	445,847	449,417
Investment Earnings	77,099	24,328	301,273	42,443	378,372	66,771
Transfers	(503,382)	(595,756)	426,352	528,642	(77,030)	(67,114)
Other	177,933	(30,456)	-	(1,276)	177,933	(31,732)
Total Revenues	5,318,878	5,171,731	3,107,557	3,026,205	8,426,435	8,197,936
Program Expenses:						
General Government	1,389,448	1,225,164	-	-	1,389,448	1,225,164
Public Safety	1,786,244	1,756,955	-	-	1,786,244	1,756,955
Public Works	1,626,038	1,522,213	-	-	1,626,038	1,522,213
Health and Welfare	107,370	80,861	-	-	107,370	80,861
Recreation and Culture	399,852	366,413	-	-	399,852	366,413
Interest- Long-Term Debt	95,832	80,582	-	-	95,832	80,582
Transit	-	-	485,552	480,865	485,552	480,865
Other	-	-	28,476	31,532	28,476	31,532
Water and Sewer	-	-	2,458,218	1,795,266	2,458,218	1,795,266
Total Expenses	5,404,784	5,032,188	2,972,246	2,307,663	8,377,030	7,339,851
Change in Net Assets	\$ (85,906)	\$ 139,543	\$ 135,311	\$ 718,542	\$ 49,405	\$ 858,085

**Governmental activities.** Governmental activities decreased the City of Milan's net assets by \$85,906. Key elements of this decrease are as follows:

- Transfer to Water and Sewer Proprietary Fund from the General Fund. \$ 480,442
- Settlement of Property Tax litigation \$ 125,000
- Sale of Land \$ 177,933

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** Business-type activities increased the City of Milan's net assets by \$135,311. Key elements of this increase are as follows:

- Operating transfers from the general fund               \$ 480,442
- Interest Expense water and sewer fund               \$ 567,973
- Capital contributions                                       \$ 419,011

### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Milan used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Milan's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Milan's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the City of Milan's governmental funds reported combined ending fund balances of \$1,230,120, an increase of \$584,196 in comparison with the prior year. Approximately 48% of this total amount (\$593,010) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$175,363), 2) to accomplish capital projects (\$461,747).

The general fund is the chief operating fund of the City of Milan. At the end of the current fiscal year unreserved fund balance of the general fund and the total fund balance was \$67,490. Unreserved fund balance represents 1 percent of total general fund expenditures.

The fund balance of the City of Milan's general fund decreased by \$74,915 during the current fiscal year. Key factors were as follows:

- Capital projects of \$214,069, which was offset by sale of property of \$218,425.
- Transfer of \$549,675 to other funds for operations and debt service.
- Settlement of property tax litigation \$125,000.

**Proprietary funds.** The City of Milan's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$495,712. The total growth in net assets was \$138,798. Other factors concerning the finances of the fund have already been addressed in the discussion of the City of Milan's business-type activities.

## General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended expenditure budget were \$341,905, which represented capital acquisitions and changes in financing and spending plans.

## Capital Asset and Debt Administration

**Capital assets.** The City of Milan's investment in capital assets for its governmental and business type activities as of June 30, 2006 amounts to \$30,802,630 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads and highways. The total increase in the City of Milan's investment in capital assets for the current fiscal year was 34 percent (a 2 percent decrease for governmental activities and a 54 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Property Acquisition \$ 187,136
- Continuation of work on wastewater treatment plant expansion \$ 8,302,966
- Commencement of work on Southside Sewer \$ 283,303

Details to the City's capital assets are continued in the notes to the financial statements on pages 36 to 37.

**Long-term debt.** At the end of the current fiscal year the City of Milan had total bonded and installment debt outstanding of \$16,279,372. Of this amount, \$16,229,372 comprises debt backed by the full faith and credit of the government and \$50,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds). During 2005/2006 the City issued \$735,000 general obligation capital improvement bonds to accomplish specific improvements financed by special assessment.

Additional information on the City of Milan's long-term debt can be found in note IV.D on pages 40-41.

## Economic Factors and Next Year's Budgets and Rates

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state shared revenues. The City of Milan's millage rate was reduced again by the Headlee Amendment rollback to 18.31667 for general operating purposes, however we only levy 15.75 mills. These factors were considered in preparing the City of Milan's budget for the 2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$67,490. The City of Milan has presented a balanced budget in the 2007 fiscal year budget, as there was no significant unreserved fund balance to appropriate.

The Water and Sewer Fund rates were increased for the 2007 budget year to set aside funds for capital improvements. City Council will review rates again in January of 2007, and other revenue enhancements/cost reductions necessary to amend the adopted budget for 2007. These adjustments are necessary due to the anticipated shortfall in "tap" charges collected for new utility customers. The "tap" revenues (capital contributions), along with General Fund operating transfers, were the primary source of repayment for the \$13,600,000 general obligation capital improvement bonds issued to accomplish wastewater treatment plant expansion and improvements. We anticipate the shortfall will be remedied by cost reductions in general city operating budgets and water and sewer rate increases.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Milan's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, 147 Wabash Milan, MI 48160.

## BASIC FINANCIAL STATEMENTS



**CITY OF MILAN**  
**Statement of Net Assets**  
**June 30, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 1,230,377	\$ 573,590	\$ 1,803,967	\$ 135,474
Receivables (net of allowance for uncollectibles):				
Special Assessments	2,131,135	-	2,131,135	-
Accounts	269,286	338,376	607,662	323
Due from Other Funds	94,593	81,000	175,593	-
Due from Component Units	909	-	909	109,191
Due from Other Governmental Units	115,041	9,515	124,556	-
Due from Primary Government	-	-	-	-
Inventory	-	59,009	59,009	-
Prepaid Expenditures	52,954	56,027	108,981	16
Restricted Assets - Cash	-	401,851	401,851	-
Restricted Assets - Investment	-	5,033,261	5,033,261	-
Capital Assets (Net of Accumulated Depreciation)	8,364,279	22,438,351	30,802,630	-
Total Assets	<u>12,258,574</u>	<u>28,990,980</u>	<u>41,249,554</u>	<u>245,004</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	200,598	1,221,580	1,422,178	2,277
Accrued Liabilities	185,271	14,207	199,478	-
Due to Other Funds	89,088	75,643	164,731	-
Due to Primary Government	-	-	-	909
Due to Component Units	109,191	-	109,191	-
Deferred Revenue	2,131,135	-	2,131,135	-
Noncurrent Liabilities:				
Due within one year	236,817	626,664	863,481	-
Compensated Absences Due in more than one year	61,988	30,335	92,323	-
Due in more than one year	2,225,891	13,190,000	15,415,891	-
Total Liabilities	<u>5,239,979</u>	<u>15,158,429</u>	<u>20,398,408</u>	<u>3,186</u>
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, net of related debt	5,901,571	12,845,268	18,746,839	-
Restricted for:				
Capital Projects	461,747	-	461,747	-
Debt Service	175,363	436,578	611,941	-
Unrestricted	479,914	550,705	1,030,619	241,818
Total Net Assets	<u>\$ 7,018,595</u>	<u>\$ 13,832,551</u>	<u>\$ 20,851,146</u>	<u>\$ 241,818</u>

**CITY OF MILAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,389,448	\$ 309,944	\$ 88,004	\$ -
Public Safety	1,786,244	153,449	73,175	1,456
Public Works	1,626,038	735,652	330,610	-
Health and Welfare	107,370	-	6,371	-
Recreation and Cultural	399,852	106,775	-	-
Interest on Long-Term Debt	95,832	-	-	-
Total Governmental Activities	<u>5,404,784</u>	<u>1,305,820</u>	<u>498,160</u>	<u>1,456</u>
Business-type Activities:				
Water and Sewer	2,458,218	1,621,479	-	292,759
Transit	485,552	34,692	303,152	76,652
Other	28,476	1,598	-	49,600
Total Business-type Activities	<u>2,972,246</u>	<u>1,657,769</u>	<u>303,152</u>	<u>419,011</u>
Total Primary Government	\$ <u>8,377,030</u>	\$ <u>2,963,589</u>	\$ <u>801,312</u>	\$ <u>420,467</u>
 <b>Component Units</b>	 \$ <u>81,342</u>	 \$ <u>3,509</u>	 \$ <u>-</u>	 \$ <u>-</u>

General Revenues:  
Property Taxes  
State Shared Revenue  
Unrestricted Investment Earnings  
Gain(Loss) on Disposal of Capital Assets  
Transfers In (out)  
Total General Revenues and Transfers

Change in Net Assets  
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (991,500)	\$ -	\$ (991,500)	\$ -
(1,558,164)	-	(1,558,164)	-
(559,776)	-	(559,776)	-
(100,999)	-	(100,999)	-
(293,077)	-	(293,077)	-
(95,832)	-	(95,832)	-
<u>(3,599,348)</u>	<u>-</u>	<u>(3,599,348)</u>	<u>-</u>
-	(543,980)	(543,980)	-
-	(71,056)	(71,056)	-
-	22,722	22,722	-
<u>-</u>	<u>(592,314)</u>	<u>(592,314)</u>	<u>-</u>
<u>(3,599,348)</u>	<u>(592,314)</u>	<u>(4,191,662)</u>	<u>-</u>
-	-	-	(77,833)
3,315,945	-	3,315,945	30,934
445,847	-	445,847	-
77,099	301,273	378,372	6,933
177,933	-	177,933	-
(503,382)	426,352	(77,030)	78,230
<u>3,513,442</u>	<u>727,625</u>	<u>4,241,067</u>	<u>116,097</u>
(85,906)	135,311	49,405	38,264
<u>7,104,501</u>	<u>13,697,240</u>	<u>20,801,741</u>	<u>203,554</u>
\$ <u>7,018,595</u>	\$ <u>13,832,551</u>	\$ <u>20,851,146</u>	\$ <u>241,818</u>

**CITY OF MILAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General</u>	<u>Arkona Rd. Special Assess. Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 122,240	\$ 89,285	\$ 1,019,352	\$ 1,230,877
Receivables (net of allowance for uncollectibles):				
Accounts	145,176	-	119,768	264,944
Special Assessments	-	1,098,890	1,032,245	2,131,135
Due from Other Funds	143,927	-	44,516	188,443
Due from Component Units	909	-	-	909
Due from Other Governmental Units	59,656	-	55,385	115,041
Prepaid Expenditures	52,289	-	266	52,555
Total Assets	<u>\$ 524,197</u>	<u>\$ 1,188,175</u>	<u>\$ 2,271,532</u>	<u>\$ 3,983,904</u>

**LIABILITIES AND FUND BALANCE**

Liabilities:				
Accounts Payable	\$ 125,441	\$ -	\$ 64,742	\$ 190,183
Accrued and Other Liabilities	176,257	-	-	176,257
Due to Other Funds	45,818	-	101,200	147,018
Due to Component Units	109,191	-	-	109,191
Deferred Revenue	-	1,098,890	1,032,245	2,131,135
Total Liabilities	<u>456,707</u>	<u>1,098,890</u>	<u>1,198,187</u>	<u>2,753,784</u>
Fund Balances:				
Reserved for:				
Capital Projects	-	-	461,747	461,747
Debt Service	-	89,285	86,078	175,363
Unreserved for:				
General Fund	67,490	-	-	67,490
Special Revenue Funds	-	-	525,520	525,520
Total Fund Balances	<u>67,490</u>	<u>89,285</u>	<u>1,073,345</u>	<u>1,230,120</u>
Total Liabilities and Fund Balances	<u>\$ 524,197</u>	<u>\$ 1,188,175</u>	<u>\$ 2,271,532</u>	

Amounts reported for governmental activities in the statement of net assets are difference because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,915,099
Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	326,857
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,453,481)</u>
	<u>\$ 7,018,595</u>

**CITY OF MILAN**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>General</b>	<b>Arkona Rd. Special Assess. Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>				
Property Taxes	\$ 3,315,945	\$ -	\$ -	\$ 3,315,945
Special Assessments	-	153,914	69,222	223,136
Licenses and Permits	156,708	-	-	156,708
Intergovernmental:				
Federal, State and Local	478,675	-	341,988	820,663
Charges for Services	700,686	-	119,443	820,129
Fines and Forfeitures	29,536	-	-	29,536
Interest	49,139	948	27,008	77,095
Other	119,262	-	81,849	201,111
Total Revenues	<u>4,849,951</u>	<u>154,862</u>	<u>639,510</u>	<u>5,644,323</u>
<b><u>Expenditures</u></b>				
Current:				
General Government	1,149,200	-	155,229	1,304,429
Public Safety	1,737,898	-	11,371	1,749,269
Public Works	940,490	-	258,456	1,198,946
Health and Welfare	107,370	-	-	107,370
Recreation and Cultural	369,859	-	-	369,859
Other	-	-	-	-
Debt Service:				
Principal	-	90,000	55,000	145,000
Interest and Other Charges	-	43,363	46,896	90,259
Capital Outlay	214,069	-	283,303	497,372
Total Expenditures	<u>4,518,886</u>	<u>133,363</u>	<u>810,255</u>	<u>5,462,504</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>331,065</u>	<u>21,499</u>	<u>(170,745)</u>	<u>181,819</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	3,500	-	115,373	118,873
Transfers Out	(549,675)	-	(42,016)	(591,691)
Transfers Out-Component Unit	(78,230)	-	-	(78,230)
Proceeds of Long Term Debt	-	-	735,000	735,000
Sales of Fixed Assets	218,425	-	-	218,425
Total Other Financing Sources and Uses	<u>(405,980)</u>	<u>-</u>	<u>808,357</u>	<u>402,377</u>
Net Change in Fund Balances	(74,915)	21,499	637,612	584,196
Fund Balances - Beginning	<u>142,405</u>	<u>67,786</u>	<u>435,733</u>	<u>645,924</u>
Fund Balances - Ending	<u>\$ 67,490</u>	<u>\$ 89,285</u>	<u>\$ 1,073,345</u>	<u>\$ 1,230,120</u>

**CITY OF MILAN**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 584,196
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(52,572)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(557,329)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (cost basis on disposal of fixed assets).	(40,492)
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net expenses of certain activities of internal service funds is reported with governmental activities.	<u>(19,709)</u>
Change in net assets in governmental activities	\$ <u><u>(85,906)</u></u>

**CITY OF MILAN**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2006**

	Business Type Activities Enterprise Funds			Governmental Activities - Internal Service
	Water & Sewer	Non Major Funds	Total	Motor Pool Fund
<b><u>ASSETS</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 447,546	\$ 126,044	\$ 573,590	\$ -
Accounts Receivable	318,939	19,437	338,376	4,342
Due From Other Funds	76,000	5,400	81,400	24,200
Due From Other Governmental Units:				
Federal	-	9,515	9,515	-
Inventory	59,009	-	59,009	-
Prepaid Expense	55,003	1,024	56,027	399
Total Current Assets	<u>956,497</u>	<u>161,420</u>	<u>1,117,917</u>	<u>28,941</u>
Restricted Assets:				
Cash-Debt Retirement	401,851	-	401,851	-
Investment-Debt Retirement	34,727	-	34,727	-
Investment-Construction	<u>4,998,534</u>	<u>-</u>	<u>4,998,534</u>	<u>-</u>
Total Restricted Assets	<u>5,435,112</u>	<u>-</u>	<u>5,435,112</u>	<u>-</u>
Property, Plant and Equipment:				
Land and Land Improvements	981,712	-	981,712	-
Building	8,142,887	34,590	8,177,477	-
Water and Sewer Infrastructure	9,343,775	-	9,343,775	-
Machinery, Equipment and Vehicles	4,550,982	591,035	5,142,017	1,464,308
Construction in Progress	10,161,875	-	10,161,875	-
Less: Accumulated Depreciation	<u>(11,016,158)</u>	<u>(352,347)</u>	<u>(11,368,505)</u>	<u>(1,015,128)</u>
Net Property, Plant and Equipment	<u>22,165,073</u>	<u>273,278</u>	<u>22,438,351</u>	<u>449,180</u>
Total Assets	<u>\$ 28,556,682</u>	<u>\$ 434,698</u>	<u>\$ 28,991,380</u>	<u>\$ 478,121</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
Current Liabilities:				
Accounts Payable-from Unrestricted	\$ 45,431	\$ 5,882	\$ 51,313	\$ 10,415
Cash Overdraft	-	-	-	500
Accounts Payable-from Restricted	1,170,267	-	1,170,267	-
Accrued Liabilities	10,216	3,991	14,207	9,014
Due to Other Funds	14,216	61,827	76,043	60,120
Current Portion of Contracts Payable	175,000	-	175,000	34,938
Current Portion of Bonds Payable	<u>451,664</u>	<u>-</u>	<u>451,664</u>	<u>-</u>
Total Current Liabilities	<u>1,866,794</u>	<u>71,700</u>	<u>1,938,494</u>	<u>114,987</u>
Long-Term Liabilities:				
Compensated Absences Payable	30,335	-	30,335	-
Contracts Payable	-	-	-	36,277
Bonds Payable	<u>13,190,000</u>	<u>-</u>	<u>13,190,000</u>	<u>-</u>
Total Long-Term Liabilities	<u>13,220,335</u>	<u>-</u>	<u>13,220,335</u>	<u>36,277</u>
Equity:				
Invested in Capital Assets, Net of Related Debt	12,571,990	273,278	12,845,268	377,965
Restricted for Debt Service	401,851	-	401,851	-
Unrestricted	<u>495,712</u>	<u>89,720</u>	<u>585,432</u>	<u>(51,108)</u>
Total Equity	<u>13,469,553</u>	<u>362,998</u>	<u>13,832,551</u>	<u>326,857</u>
Total Liabilities and Equity	<u>\$ 28,556,682</u>	<u>\$ 434,698</u>	<u>\$ 28,991,380</u>	<u>\$ 478,121</u>

**CITY OF MILAN**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business Type Activities Enterprise Funds</b>			<b>Governmental Activities - Internal Service</b>
	<b>Water &amp; Sewer</b>	<b>Non Major Funds</b>	<b>Total</b>	<b>Motor Pool Fund</b>
<b><u>Operating Revenues:</u></b>				
Intergovernmental- State	\$ -	\$ 165,754	\$ 165,754	\$ -
Intergovernmental- Federal	-	55,496	55,496	-
Intergovernmental-Local	-	83,500	83,500	-
Water Charges	748,490	-	748,490	-
Sewer Charges	711,913	-	711,913	-
Billing Fees	85,249	-	85,249	-
Other Charges for Services	75,827	34,692	110,519	277,288
Total Operating Revenues	1,621,479	339,442	1,960,921	277,288
<b><u>Operating Expenses:</u></b>				
Water Operating Expenses:				
Wages	179,057	-	179,057	-
Administrative Fees	51,201	-	51,201	-
Fringe Benefits	85,561	-	85,561	-
Other Operating Costs	494,875	-	494,875	-
Total Water Operating Expenses	810,694	-	810,694	-
Sewer Operating Expenses:				
Wages	189,432	-	189,432	-
Administrative Fees	51,201	-	51,201	-
Fringe Benefits	98,063	-	98,063	-
Other Operating Costs	345,541	-	345,541	-
Total Sewer Operating Expenses	684,237	-	684,237	-
Other Operating Expenses	-	411,496	411,496	247,377
Depreciation	395,314	102,532	497,846	93,274
Total Operating Expenses	1,890,245	514,028	2,404,273	340,651
Operating Income (Loss)	(268,766)	(174,586)	(443,352)	(63,363)
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Interest Earned	298,126	3,147	301,273	4
Interest Expense	(567,973)	-	(567,973)	(4,016)
Total Non-Operating Revenues (Expenses)	(269,847)	3,147	(266,700)	(4,012)
Income (Loss) before Operating Transfers	(538,613)	(171,439)	(710,052)	(67,375)
<b><u>Operating Transfers:</u></b>				
Operating Transfer In	480,442	42,700	523,142	47,666
Operating Transfers (Out)	(95,790)	(1,000)	(96,790)	-
Net Operating Transfers	384,652	41,700	426,352	47,666
Net Income (Loss)	(153,961)	(129,739)	(283,700)	(19,709)
Capital Contributions	292,759	126,252	419,011	-
Fund Equity, Beginning	13,330,755	366,485	13,697,240	346,566
Fund Equity, Ending	\$ 13,469,553	\$ 362,998	\$ 13,832,551	\$ 326,857



**CITY OF MILAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business Type Activities Enterprise Funds</b>			<b>Governmental Activities - Internal Service</b>
	<b>Water &amp; Sewer</b>	<b>Non Major Funds</b>	<b>Total</b>	<b>Motor Pool Fund</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers and users	\$ 1,623,598	\$ 27,112	\$ 1,650,710	\$ -
Receipts from quasi-external transactions	-	322,164	322,164	301,698
Payments to suppliers	(1,229,306)	(191,351)	(1,420,657)	(173,785)
Payments to employees	(368,489)	(235,451)	(603,940)	(91,354)
Net Cash Provided (Used) by Operating Activities	25,803	(77,526)	(51,723)	36,559
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Transfer from other funds	480,442	42,700	523,142	47,666
Transfer to other funds	(95,790)	(1,000)	(96,790)	-
Net Cash Provided by Noncapital Financing Activities	384,652	41,700	426,352	47,666
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Proceeds from Capital Charges	292,759	128,652	421,411	-
Trade Accounts Payable for Capital Assets	1,170,267	-	1,170,267	-
Purchases of Capital Assets	(8,302,966)	(71,190)	(8,374,156)	(52,564)
Principal Paid on Capital Debt	(561,667)	-	(561,667)	(33,650)
Interest Paid on Capital Debt	(559,253)	-	(559,253)	(4,016)
Net Cash Provided (Used) by Capital and Related Financing Activities	(7,960,860)	57,462	(7,903,398)	(90,230)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Sale of Investments	7,647,231	-	7,647,231	-
Interest Earned	298,126	3,147	301,273	4
Net Cash Provided (Used) by Investing Activities	7,945,357	3,147	7,948,504	4
Net Increase (Decrease) in Cash and Cash Equivalents	394,952	24,783	419,735	(6,001)
Cash and Cash Equivalents, Beginning	454,445	101,261	555,706	5,501
Cash and Cash Equivalents, Ending	\$ 849,397	\$ 126,044	\$ 975,441	\$ (500)
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>				
Operating Income (Loss)	\$ (268,766)	\$ (174,586)	\$ (443,352)	\$ (63,363)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	395,314	102,532	497,846	93,274
(Increase) Decrease in Receivables	2,119	(7,580)	(5,461)	(1,356)
(Increase) Decrease in Due from Other Funds	193,365	(2,339)	191,026	25,766
(Increase) Decrease in Due from Other Units	-	19,753	19,753	-
(Increase) Decrease in Prepaid Expenses	(50,347)	42	(50,305)	17
(Increase) Decrease in Inventory	11,025	-	11,025	-
Increase (Decrease) in Accounts Payable	(180,872)	1,656	(179,216)	(3,778)
Increase (Decrease) in Accrued Liabilities	(19,276)	(8,384)	(27,660)	(2,592)
Increase (Decrease) in Due to Other Funds	(56,759)	(8,620)	(65,379)	(11,409)
Net Cash Provided (Used) by Operating Activities	\$ 25,803	\$ (77,526)	\$ (51,723)	\$ 36,559

**CITY OF MILAN**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

<u>ASSETS</u>	Retirement Health Savings	Trust Funds	Agency Funds
Cash	\$ -	\$ 19,233	\$ 32,721
Investments, at Fair Value	241,199	-	-
Due From Other Funds	-	-	9,530
Accounts Receivable	-	-	491
Total Assets	<u>241,199</u>	<u>19,233</u>	<u>42,742</u>
<u>LIABILITIES</u>			
Accounts Payable	-	800	22,350
Due to Other	-	2,837	-
Due to Other Funds	-	-	20,392
Total Liabilities	<u>-</u>	<u>3,637</u>	<u>42,742</u>
Net Assets Held in Trust	\$ <u>241,199</u>	\$ <u>15,596</u>	\$ <u>-</u>

**CITY OF MILAN**  
**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2006**

	Retirement Health Savings	Trust Funds
<b><u>ADDITIONS</u></b>		
Investment Income:		
Earnings on Investments	\$ 7,003	\$ 567
Contributions:		
Employer	18,309	-
Employee	<u>18,309</u>	<u>-</u>
Total Additions	43,621	567
 <b><u>DEDUCTIONS</u></b>		
Benefits Paid	<u>13,087</u>	<u>-</u>
 Net Increase (Decrease) Before Transfers	30,534	567
Transfers to Other Funds	<u>-</u>	<u>(1,200)</u>
Net Increase (Decrease)	30,534	(633)
Net Assets Held in Trust		
July 1	<u>210,665</u>	<u>16,229</u>
June 30	<u>\$ 241,199</u>	<u>\$ 15,596</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Milan, Michigan, a Municipal Corporation, was established in 1831, chartered as a Village in 1885 and became a City in 1967. Located 12 miles south of Ann Arbor, 45 miles southwest of Detroit and 25 miles north of the Ohio State line, the City covers an area of 3.00 square miles. Milan is a Home-Rule City, which operates under an elected City Council which consists of the Mayor and six Council members, with the daily activity managed by the City Administrator and Department Heads. The City provides services to its more than 5,200 residents in many areas including law enforcement, fire protection, water, sewer, transportation, parks and recreation.

As required by generally accepted accounting principles, these financial statements present the City of Milan and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. Each discretely presented component unit has a June 30 year end.

*Discretely Presented Component Units*

The City of Milan Downtown Development Authority (DDA) Board is comprised of the Mayor and eight (8) members appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Milan City Council.

The City of Milan Economic Development Corporation (EDC) is governed by a nine (9) member board appointed by the City Council. The EDC was established to promote economic development within the City. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Brownfield Redevelopment Authority (BRA) was established pursuant to Public Act 381 of 1996 to promote the revitalization of environmentally distressed areas in the City. The BRA is governed by a seven member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

The City of Milan Historical Commission (HC) was established to preserve the Hack House property. The Historical Commission consists of a five (5) member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity - Continued

*Discretely Presented Component Units – Continued*

The above component units are discretely presented with the City general purpose financial statements because they are legally separate and financially accountable to the City. Financial accountability is demonstrated by the City Council making the appointments to the respective Boards, approving the annual operating budgets and any amendments of each component unit and approving the projects undertaken by the BRA and HC and the development and financing plans of the EDC and DDA (Condensed financial information represented below).

STATEMENT OF NET ASSETS - COMPONENT UNITS

	Brownfield Redevelopment Authority	Other Governmental Funds	Total Component Units
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 118,096	\$ 17,378	\$ 135,474
Accounts Receivable	-	323	323
Due from Primary Government	100,954	8,237	109,191
Prepaid Expenses	-	16	16
Total Assets	<u>219,050</u>	<u>25,954</u>	<u>245,004</u>
<u>LIABILITIES</u>			
Accounts Payable	-	2,277	2,277
Due to Primary Government	-	909	909
Total Liabilities	<u>-</u>	<u>3,186</u>	<u>3,186</u>
<u>NET ASSETS</u>			
Unrestricted	\$ <u>219,050</u>	\$ <u>22,768</u>	\$ <u>241,818</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Reporting Entity – Continued

*Discretely Presented Component Units – Continued*

STATEMENT OF ACTIVITIES - COMPONENT UNITS

	Brownfield Redevelopment Authority	Other Governmental Funds	Total Component Units
Expenses	\$ (2,000)	\$ (79,342)	\$ (81,342)
Program Revenues	349	3,160	3,509
Net Revenues	(1,651)	(76,182)	(77,833)
General Revenues:			
Property Taxes	24,713	6,221	30,934
Transfers in from Primary Government	-	78,230	78,230
Unrestricted Investment Earnings (Loss)	6,563	370	6,933
Change in Net Assets	29,625	8,639	38,264
Net Assets-Beginning	189,425	14,129	203,554
Net Assets-Ending	\$ 219,050	\$ 22,768	\$ 241,818

*Joint Venture*

The City is a participant with London Township, Milan Township, and York Township in the Milan Area Fire Department. The Department was established by inter local agreements between the parties in 1980, and was established to provide fire protection services to the participating communities. The Department is governed by an executive committee consisting of the chief executive from each of the communities, along with appointed members by each community's governing body. No share ownership of the assets are available since the Department does not maintain the separate accounting of the fixed assets required by the agreements. Financial statements are available by contacting the Milan Area Fire Department.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental*

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements - Continued

*activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Arkona Road Special Assessment Debt Service Fund-used to account for financial resources accumulated to pay principal and interest on the special assessment bonds.

In addition, the City reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for construction projects and their related revenue sources.



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds are the Water and Sewer Fund and Public Transit funds which are reported as a major fund, and the nonmajor enterprise funds, Storm Sewer, and Mooreville Sewer funds.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental* activities in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The trust funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments or other funds.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds – Continued

The agency funds are used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for using the modified accrual basis of accounting.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables – Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowances for uncollectible accounts, which are recorded \$-0- at June 30, 2006.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Resources for the debt service and construction activity within the Water and Sewer Fund (Enterprise Fund) are segregated and classified as "Restricted Assets". Assets restricted for debt service total \$436,578 at June 30, 2006, while assets restricted for construction total \$4,998,534.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment	5-20
Infrastructure	15-30

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2006 is \$61,988.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The detail of this \$2,453,481 difference is as follows:

General Obligation Bonds and Notes Payable	\$2,391,493
Compensated Absences Payable	<u>61,988</u>
	<u>\$2,453,481</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The detail of this \$(52,572) difference is as follows:

Capital Outlay	\$ 497,372
Depreciation Expense	<u>(549,944)</u>
	<u>\$ (52,572)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities". The details of this \$(557,329) difference are as follows:

Proceeds of Long Term Debt	\$ (735,000)
Principal Repayments - categorized as debt service	145,000
Principal Repayments - in General Fund Police Budget	19,495
Compensated Absences	<u>13,176</u>
	<u>\$ (557,329)</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:
  - a. Budgets must be adopted for the General and Special Revenue Funds.
  - b. Budgets must be balanced.
  - c. Budgets must be amended as necessary.
  - d. Public hearings must be held prior to adoption.
  - e. Expenditures cannot exceed budget appropriations.
  - f. Expenditures must be authorized by a budget appropriation prior to being incurred.
2. The City follows these procedures in establishing the budgetary data reflected in these financial statements:
  - a. In accordance with State law, prior to May 1, the Mayor and City Administrator submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year. Detail line item budgets are included for administrative control. The level of control for the detail budgets is at the department level.
  - b. Public hearings are conducted at City Hall to obtain taxpayer comments.
  - c. Prior to June 30, the budgets are legally enacted at the activity level for the General Fund and at the total fund expenditure level for the Special Revenue Funds through passage of a resolution.
  - d. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
  - e. Budget appropriations lapse at year end.
  - f. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
  - g. Budgeted amounts are reported as originally adopted, or as amended by the City Council.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Clerk/Treasurer	\$315,675	\$317,636	\$ 1,961
Other	40,604	82,615	42,011

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law the City is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Savings Fund is also authorized by Michigan Public Act 149 of 1999, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt, or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

The City's cash and investments are subject to several types of risk, which are detailed below:

Custodial Credit Risk of Bank Deposits

In the event of a bank failure, the City's deposits may not be recovered. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, the City's book balance of its deposits was \$2,257,772; the total book balance was \$2,257,422, due to \$350 in cash on hand. The bank balance was \$2,938,865 which was exposed to custodial credit risk, as follows:

		<u>Bank Balance</u>	
Insured by F.D.I.C		\$ 210,000	
Uninsured and Uncollateralized		<u>2,728,865</u>	
Total		<u>\$2,938,865</u>	

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insured</u>
Downtown Development Authority	\$ 2,275	\$ 2,275	\$ 2,275
Economic Development Corporation	8,812	8,812	1,073
Brownfield Redevelopment Authority	118,096	118,096	14,011
Historical Commission	<u>6,291</u>	<u>6,291</u>	<u>5,116</u>
	<u>\$ 135,474</u>	<u>\$ 135,474</u>	<u>\$ 22,475</u>

A reconciliation of cash to the accompanying financial statement follows:

Statement of Net Assets:	
Cash and Cash Equivalents	\$1,803,967
Restricted Assets-Cash	401,851
Fiduciary Fund:	
Cash	<u>51,954</u>
Total	<u>\$2,257,772</u>

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
T-Bills	\$ 21,046	8 years
Federal Home Loan Mortgage Corporation	5,012,215	225 days



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 5,012,215	AAA	S&P

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Federated Home Loan Mortgage Corporation	99.6%
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Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 21,046	Counterparty
Money Market -		
Federated Capital Reserves	5,012,215	Counterparty
I.C.M.A. Retirement Funds	241,199	Counterparty
	<u>\$ 5,274,460</u>	

Reported as:

Statement of Net Assets:	
Restricted Assets – Investments	\$ 5,033,261
Statement of Net Assets – Fiduciary Funds	<u>241,199</u>
	<u>\$ 5,274,460</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 73,500	\$ 80,492	\$ 40,492	\$ 113,500
Capital Assets, being depreciated:				
Land Improvements	986,730	-	-	986,730
Building	3,343,966	106,644	-	3,450,610
Building Improvements	67,991	-	-	67,991
Machinery and Equipment	886,095	26,933	-	913,028
Construction in Progress	-	283,303	-	283,303
Infrastructure	8,974,624	-	-	8,974,624
Internal Service Fund	1,411,744	52,564	-	1,464,308
	<u>15,671,150</u>	<u>469,444</u>	<u>-</u>	<u>16,140,594</u>
Less: Accumulated Depreciation:				
Land Improvements	(660,931)	(43,560)	-	(704,491)
Building	(1,073,902)	(67,340)	-	(1,141,242)
Building Improvements	(8,731)	(2,963)	-	(11,694)
Machinery and Equipment	(653,571)	(77,096)	-	(730,667)
Infrastructure	(3,927,608)	(358,985)	-	(4,286,593)
Internal Service Fund	(921,854)	(93,274)	-	(1,015,128)
	<u>(7,246,597)</u>	<u>(643,218)</u>	<u>-</u>	<u>(7,889,815)</u>
Governmental Activities				
Capital Assets, net	<u>\$ 8,498,053</u>	<u>\$ (93,282)</u>	<u>\$ 40,492</u>	<u>\$ 8,364,279</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Capital Assets, being depreciated:				
Milan Public Transit	554,435	71,190	-	625,625
Water and Sewer	24,847,765	8,302,966	-	33,150,731
	<u>25,402,200</u>	<u>8,374,156</u>	<u>-</u>	<u>33,776,356</u>
Less: Accumulated Depreciation:				
Milan Public Transit	(249,815)	(102,532)	-	(352,347)
Water and Sewer	(10,620,844)	(395,314)	-	(11,016,158)
	<u>(10,870,659)</u>	<u>(497,846)</u>	<u>-</u>	<u>(11,368,505)</u>
Business Activities				
Capital Assets, net	\$ <u>14,562,041</u>	\$ <u>7,876,310</u>	\$ <u>-</u>	\$ <u>22,438,351</u>

Depreciated expense was charged to functions of the primary government as follows:

General Government	\$ 98,195
Public Safety	58,027
Public Works	363,729
Recreation and Culture	29,993
Charged though internal service funds	93,274
	<u>\$ 643,218</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

<u>Receivable Fund</u>	<u>Payble Fund</u>	<u>Amount</u>
General Fund	Cons. Inspec/Eng.	\$ 1,000
	Transit	61,294
	Water and Sewer	10,907
	Motor Pool	50,334
	Trust and Agency	20,392
		<u>143,927</u>
Major Streets	General Fund	247
	Motor Pool	9,786
	Water and Sewer	2,000
		<u>12,033</u>
Local Streets	General Fund	<u>32,483</u>
Water and Sewer	Inspection Fund	<u>76,000</u>
Transit	General Fund	<u>5,000</u>
Mooreville Sewer	Water and Sewer	<u>400</u>
Motor Pool	Local Streets	<u>24,200</u>
Agency	Water and Sewer	909
	Transit	533
	General Fund	8,088
		<u>9,530</u>
Total		\$ <u><u>303,573</u></u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers - Continued

2. Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Motor Pool	General Fund	\$ 10,000
Forrestry		12,000
Transit		42,700
Water and Sewer		480,442
Southside Debt		4,533
		<u>549,675</u>
Local Streets	Major Streets	<u>11,000</u>
General Fund	Transit	<u>1,000</u>
Southside Debt	Southside Cap. Proj.	<u>31,016</u>
General Fund	Trust and Agency	<u>1,200</u>
General Fund	Water and Sewer	<u>1,300</u>
Motor Pool		37,666
Major Streets		9,000
Local Streets		20,000
G.O. Bond		26,920
Southside Debt		904
		<u>95,790</u>
Total		\$ <u><u>689,681</u></u>

Interfund accounts payable/receivables represent uncleared balances from trade accounts payable at year end, and short term advances. Transfers are the results of planned (budgeted) operating for the following:

- General Fund to Water and Sewer – assist with debt service payments
- General Fund to Other Funds – budgeted operating assistance
- Major Streets to Local Streets – transfer to accomplish local street projects
- Southside Capital Projects to Southside Debt Service – capitalized interest on bond proceeds
- Water and Sewer to various funds – budgeted operating assistance

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Balance Within 1 Year
Gov. Activities:					
G.O. Bonds	\$ 235,000	\$ -	\$ 15,000	\$ 220,000	\$ 15,000
Installment Loan	25,988	-	19,495	6,493	3,167
Special Assess. Bonds	1,560,000	735,000	130,000	2,165,000	185,000
Comp. Absences	75,164	-	13,176	61,988	-
Note-Equip.Fund	104,865	-	33,650	71,215	33,650
	<u>\$ 2,001,017</u>	<u>\$ 735,000</u>	<u>\$ 211,321</u>	<u>\$ 2,524,696</u>	<u>\$ 236,817</u>
Business Type Activities:					
Rev. Bonds	\$ 95,000	\$ -	\$ 45,000	\$ 50,000	\$ 50,000
G.O. Bonds	13,600,000	-	-	13,600,000	410,000
Comp. Absences	30,335	-	-	30,335	-
Deferred Finance Chg	(16,669)	-	(8,333)	(8,336)	(8,336)
Contracts Payable	700,000	-	525,000	175,000	175,000
	<u>\$ 14,408,666</u>	<u>\$ -</u>	<u>\$ 561,667</u>	<u>\$ 13,846,999</u>	<u>\$ 626,664</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2006:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Governmental Activities:				
General Obligation Bonds	1	4.50%-5.10%	2018	\$ 220,000
Installment Notes	1	6.50%	2006	6,493
Special Assessment Bonds	3	2.50%-5.10%	2018	2,165,000
Notes Payable Equipment	1	3.830%	2004	71,215
Total Governmental Activities				<u>\$ 2,462,708</u>
Business Type Activities:				
Revenue Bonds Payable	1	5.40%-5.60%	2007	\$ 50,000
General Obligation Bonds	1	3.0%-4.250%	2026	13,600,000
Contracts Payable	2	4.30%-4.40%	2007	175,000
Total Business Type Activities				<u>\$ 13,825,000</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for debt outstanding as of June 30:

Year Ended	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2007	\$ 236,817	\$ 96,597	\$ 635,000	\$ 534,711
2008	240,891	89,857	435,000	517,161
2009	180,000	82,840	465,000	504,112
2010	190,000	76,495	490,000	490,161
2011	180,000	69,372	520,000	474,236
2012-2016	950,000	233,193	2,975,000	2,078,657
2017-2026	485,000	43,510	8,305,000	2,040,761
	<u>\$ 2,462,708</u>	<u>\$ 691,864</u>	<u>\$ 13,825,000</u>	<u>\$ 6,639,799</u>

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2006, is presented below:

	General	Special Revenue	Debt Service	Capital Projects
<u>Fund Balance</u>				
Reserved For:				
Capital Projects	\$ -	\$ -	\$ -	\$ 461,747
Debt Service	-	-	175,363	-
Total Reserved	<u>-</u>	<u>-</u>	<u>175,363</u>	<u>461,747</u>
Unreserved:				
Undesignated	67,490	525,520	-	-
Total Unreserved	<u>67,490</u>	<u>525,520</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 67,490</u>	<u>\$ 525,520</u>	<u>\$ 175,363</u>	<u>\$ 461,747</u>

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year; taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills prior to "rollback" required by State laws. The City's tax levy for the 2005 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Purpose</u>	<u>Authorization</u>	<u>Term</u>	<u>Pre- Rollback Auth. Rate</u>	<u>Post Rollback Auth. Rate</u>	<u>Levied</u>
Operating	Charter	-	<u>20.0000</u>	<u>18.551</u>	<u>15.7500</u>

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City of Milan is in an agent multiple-employer defined pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal St., Lansing, Michigan 48917-9755.



CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2006 was from 12.51% to 72.08%. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

c. Annual Pension Costs

During the fiscal year ended June 30, 2006 the City's contributions totaling \$271,365 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Three Year Trend Information</u>				
Fiscal Year Ended <u>June 30,</u>	Valuation Date <u>Dec. 31</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension Obligation
2004	2001	\$232,078	100%	-0-
2005	2002	261,468	100%	-0-
2006	2003	271,365	100%	-0-

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Defined Contribution Plan

a. Plan Description

The City of Milan contributes to the City of Milan defined contribution plan, which is a defined contribution money purchase pension plan. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All employees hired on or after July 1, 1998 are eligible to participate in the plan. Contributions made by the City or an employee vest immediately.

b. Contributions Required and Contributions Made

Each participating employee contributes 3% of gross earnings to the plan which the City will match. The employees may contribute an additional 2% for a total of 5% to the plan which will also be matched by the City. Employer contributions on behalf of the employee shall not exceed 5% of an employee's gross earnings. During the year, employee contributions totaled \$55,813 and the City's required and actual contributions amounted to \$55,813.

B. Post Retirement Health Care Benefits

In addition to providing pension benefits, the City provides certain health care insurance benefits to all full time employees of the City. All eligible full time employees who retire within the guidelines specified by the collective bargaining agreements, or City's personnel policies, are entitled to receive benefits at the levels specified in the collective bargaining agreements, or the City's personnel policies, during their retirement. Currently 4 retirees are covered by this plan. These benefits are expensed in the year paid, on a pay-as-you-go basis. For the year ended June 30, 2006, these costs amounted to \$8,567.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

C. Risk Management

The City purchases insurance coverage through traditional means. The City's property and liability and workers compensation coverages are on file in the Risk Administrator's office.

D. Major Customers

The City receives a major portion of its revenue generated from utility billing and real estate taxes from certain major customers.

The following is a summary of the fiscal 2006 revenue and percentage of total revenue for its major customers:

	<u>Utility Billing</u>		<u>Property Taxes</u>	
Federal Corrections Institution	\$365,052	23.62%	\$ -	
Visteon Corporation	\$176,026	11.39%	\$ 851,355	25.60%

E. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative excess revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts for the period January 1, 2000 through June 30, 2006 are as follows:

Balance at July 1, 2005	\$(192,424)
Fees Collected	149,658
Expenditures	<u>(194,400)</u>
Excess Revenues Over (Under Expenditures)	<u><u>\$(237,166)</u></u>

F. Contingencies

1. Property Tax Litigation

The City has settled tax litigation with a major taxpayer for the 2005 tax roll. The settlement was entered October of 2006, and has been accrued as a loss totaling \$125,000.

The taxpayer also filed an appeal for the 2006 assessments (2006 – 2007 budget year) requesting reductions of its personal property assessments by \$50,334,027, which would result in a reduction of city tax revenues by nearly \$800,000. The City intends to vigorously contest this appeal; however, the outcome at this time is uncertain.

CITY OF MILAN  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

F. Contingencies – Continued

2. Other Matters

As a result of continuing operating deficits in the General and Water and Sewer funds, the City has inadequate reserves to fund unexpected costs, or revenue shortfalls. As noted previously, the City's major tax payer has filed a tax appeal, which could result in refunds of approximately \$800,000, if the taxpayer prevails. In addition, a significant source of repayment of the \$13,600,000 general obligation, limited tax bonds issued in 2005, was expected to be generated from collection of capital charge/tap fee revenues commencing in fiscal year 2007, and continuing through fiscal year 2027. Management does not expect revenues used in the repayment plan (average of \$666,964 in each year of the plan) to occur in the short or near term, which raised some doubt about the City's ability to meet current obligations, without significant adjustments to short and near term spending plans.

Management has developed a plan to deal with the short term shortfall:

- Cost reductions from the 2006-2007 budget totaling \$402,373, mostly as a result of not filling vacancies in the police and other departments, delayed capital expenditures, as well as operational reductions (approved by City Council).
- Balance of funding will occur from water and sewer rate increases to be proposed to City Council in January of 2007, and surplus from construction.

Near term shortfalls will be funded by significant cost reductions, to be achieved through privatization and attrition, as well as sale of surplus property, and other means. The City does have the ability to levy additional ad-valorem taxes (see note IV. F.), which management indicates will be the source for any tax refunds required by the aforementioned litigation, as well as any additional budgetary shortfalls.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILAN  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2006

Municipal Employees Retirement System  
Schedule of Funding Progress

<u>Schedule of Funding Progress</u>						
Actuarial Covered Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Payroll
12/31/94	\$2,172,951	\$2,935,603	\$ 762,652	74%	\$1,299,831	59 %
12/31/95	2,447,033	3,573,181	1,126,148	68	1,247,941	90
12/31/96	2,716,726	3,701,115	984,389	73	1,369,376	72
12/31/97	3,040,850	4,221,977	1,181,127	72	1,404,607	84
12/31/98	3,507,054	4,853,420	1,346,366	72	1,520,652	89
12/31/99	4,094,880	5,144,094	1,049,214	80	1,553,117	68
12/31/00	4,549,492	6,399,189	1,849,697	71	1,496,671	124
12/31/01	4,885,257	6,856,882	1,971,625	71	1,320,930	149
12/31/02	5,029,143	7,263,495	2,234,352	69	1,343,043	166
12/31/03	5,354,398	7,845,735	2,491,337	68	1,330,272	187
12/31/04	5,664,975	8,457,910	2,792,935	67	1,372,432	204
12/31/05	5,995,335	9,084,445	3,089,110	66	1,157,127	266

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases includes inflation at 4.5%	4.50-8.66%
Cost of living adjustments	None

**CITY OF MILAN**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Revenues:				
Property Taxes	\$ 3,448,498	\$ 3,448,498	\$ 3,315,945	\$ (132,553)
Licenses and Permits	304,700	304,700	156,708	(147,992)
Intergovernmental - Federal	-	-	1,707	1,707
Intergovernmental - State	461,000	461,000	445,847	(15,153)
Intergovernmental - Local	37,608	38,578	31,121	(7,457)
Charges for Services	727,848	747,582	700,686	(46,896)
Fines and Forfeitures	33,150	33,150	29,536	(3,614)
Interest Earnings	20,050	20,050	49,139	29,089
Other Revenues	125,262	125,262	119,262	(6,000)
Total Revenues	5,158,116	5,178,820	4,849,951	(328,869)
Expenditures:				
General Government:				
City Council	77,497	106,295	105,419	876
City Administrator	226,094	242,004	224,819	17,185
Elections	11,850	10,560	4,144	6,416
Assessor	87,774	87,774	84,936	2,838
Clerk/Treasurer	303,235	315,675	317,636	(1,961)
City Hall	232,974	295,129	288,844	6,285
City Hall and Grounds	47,500	40,815	40,787	28
Other	40,604	40,604	82,615	(42,011)
	1,027,528	1,138,856	1,149,200	(10,344)
Public Safety:				
Police	1,385,152	1,342,783	1,315,167	27,616
Fire	159,294	175,714	175,698	16
Building	266,239	265,759	224,840	40,919
Planning and Zoning	11,500	22,615	22,193	422
	1,822,185	1,806,871	1,737,898	68,973
Public Works:				
Department of Public Works	579,012	573,980	559,408	14,572
Sanitation	376,058	381,090	381,082	8
	955,070	955,070	940,490	14,580
Health and Welfare:				
Senior Citizens	74,643	84,232	83,452	780
Community Promotion	21,850	26,425	23,918	2,507
	96,493	110,657	107,370	3,287
Recreation and Cultural:				
Parks and Recreation	387,083	378,508	369,859	8,649
Capital Outlay	28,800	214,102	214,069	33
Other - Contingency	21,666	76,666	-	76,666
Total Expenditures	4,338,825	4,680,730	4,518,886	161,844
Excess (Deficiency) of Revenues Over Expenditures	819,291	498,090	331,065	(167,025)
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	3,500	3,500	3,500	-
Operating Transfers Out	(775,354)	(733,554)	(549,675)	183,879
Operating Transfers Out-Component Unit	(67,993)	(80,884)	(78,230)	2,654
Sale of Fixed Assets	-	239,372	218,425	(20,947)
Total Other Financing Sources (Uses)	(839,847)	(571,566)	(405,980)	165,586
Net Change in Fund Balance	(20,556)	(73,476)	(74,915)	(1,439)
Fund Balance - Beginning	142,405	142,405	142,405	-
Fund Balance - Ending	\$ 121,849	\$ 68,929	\$ 67,490	\$ (1,439)

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2006**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Project</b>	<b>Total Nonmajor Governmental Funds</b>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 440,309	\$ 86,078	\$ 492,965	\$ 1,019,352
Accounts Receivable	119,768	-	-	119,768
Special Assessment Receivable	-	1,032,245	-	1,032,245
Due from Other Governmental Units	55,385	-	-	55,385
Due from Other Funds	44,516	-	-	44,516
Prepaid Expenditures	266	-	-	266
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>660,244</u>	\$ <u>1,118,323</u>	\$ <u>492,965</u>	\$ <u>2,271,532</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 33,524	\$ -	\$ 31,218	\$ 64,742
Deferred Revenue	-	1,032,245	-	1,032,245
Due to Other Funds	101,200	-	-	101,200
Total Liabilities	<hr/> 134,724	<hr/> 1,032,245	<hr/> 31,218	<hr/> 1,198,187
Fund Balance:				
Reserved for :				
Capital Projects	-	-	461,747	461,747
Debt Service	-	86,078	-	86,078
Unreserved	525,520	-	-	525,520
Total Fund Balance	<hr/> 525,520	<hr/> 86,078	<hr/> 461,747	<hr/> 1,073,345
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ <u>660,244</u>	\$ <u>1,118,323</u>	\$ <u>492,965</u>	\$ <u>2,271,532</u>



**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	Special Revenue	Debt Service	Capital Project	Total Nonmajor Governmental Funds
<b>Revenues:</b>				
Special Assessments	\$ -	\$ 69,222	\$ -	\$ 69,222
Intergovernmental	341,988	-	-	341,988
Charges for Services	119,443	-	-	119,443
Interest	9,260	2,145	15,603	27,008
Other	81,849	-	-	81,849
Total Revenues	<u>552,540</u>	<u>71,367</u>	<u>15,603</u>	<u>639,510</u>
<b>Expenditures:</b>				
General Government	155,229	-	-	155,229
Public Safety	11,371	-	-	11,371
Public Works	258,456	-	-	258,456
Debt Service:				
Principal	-	55,000	-	55,000
Interest and Other Charges	-	46,896	-	46,896
Capital Outlay	-	-	283,303	283,303
Total Expenditures	<u>425,056</u>	<u>101,896</u>	<u>283,303</u>	<u>810,255</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>127,484</u>	<u>(30,529)</u>	<u>(267,700)</u>	<u>(170,745)</u>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	52,000	63,373	-	115,373
Operating Transfers Out	(11,000)	-	(31,016)	(42,016)
Proceeds of Long Term Debt	-	-	735,000	735,000
Total Other Financing Sources (Uses)	<u>41,000</u>	<u>63,373</u>	<u>703,984</u>	<u>808,357</u>
Net Change in Fund Balances	168,484	32,844	436,284	637,612
Fund Balance, July 1	<u>357,036</u>	<u>53,234</u>	<u>25,463</u>	<u>435,733</u>
Fund Balance, June 30	<u>\$ 525,520</u>	<u>\$ 86,078</u>	<u>\$ 461,747</u>	<u>\$ 1,073,345</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2006**

	<u>Major Street</u>	<u>Local Street</u>	<u>Drug Enforcement</u>	<u>Solid Waste Community Recycling</u>	<u>Enviromental Defence</u>	<u>Police Training</u>
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents	\$ 229,192	\$ 39,923	\$ 9,334	\$ 17,260	\$ 22,113	\$ 11,293
Accounts Receivable	-	504	-	-	-	-
Due From Other Funds	12,033	32,483	-	-	-	-
Due From Other Governmental Units	38,757	12,928	-	3,700	-	-
Prepaid Expenditures	<u>156</u>	<u>110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 280,138</u>	<u>\$ 85,948</u>	<u>\$ 9,334</u>	<u>\$ 20,960</u>	<u>\$ 22,113</u>	<u>\$ 11,293</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
Liabilities:						
Accounts Payable	\$ 27,242	\$ 1,101	\$ -	\$ -	\$ -	\$ -
Accured Liabilities	54	-	-	-	-	-
Due to Other Funds	<u>-</u>	<u>24,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	27,296	25,301	-	-	-	-
Fund Balance:						
Unreserved:						
Undesignated	<u>252,842</u>	<u>60,647</u>	<u>9,334</u>	<u>20,960</u>	<u>22,113</u>	<u>11,293</u>
Total Liabilities and Fund Balance	<u>\$ 280,138</u>	<u>\$ 85,948</u>	<u>\$ 9,334</u>	<u>\$ 20,960</u>	<u>\$ 22,113</u>	<u>\$ 11,293</u>

<u>E 911</u>	<u>Youth Program</u>	<u>Forrestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 50,677	\$ 26,433	\$ 1,400	\$ 14,901	\$ 17,783	\$ 440,309
4,521	-	-	25,128	89,615	119,768
-	-	-	-	-	44,516
-	-	-	-	-	55,385
-	-	-	-	-	266
<u>\$ 55,198</u>	<u>\$ 26,433</u>	<u>\$ 1,400</u>	<u>\$ 40,029</u>	<u>\$ 107,398</u>	<u>\$ 660,244</u>
\$ -	\$ 970	\$ 185	\$ -	\$ 187	\$ 29,685
-	2,870	-	915	-	3,839
-	-	-	-	77,000	101,200
-	3,840	185	915	77,187	134,724
<u>55,198</u>	<u>22,593</u>	<u>1,215</u>	<u>39,114</u>	<u>30,211</u>	<u>525,520</u>
<u>\$ 55,198</u>	<u>\$ 26,433</u>	<u>\$ 1,400</u>	<u>\$ 40,029</u>	<u>\$ 107,398</u>	<u>\$ 660,244</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2006**

	Major Street	Local Street	Drug Enforcement	Solid Waste Community Recycling	Enviromental Defence	Police Training
<b><u>Revenues:</u></b>						
Intergovernmental	\$ 236,607	\$ 79,312	\$ -	\$ -	\$ -	\$ 1,430
Charges for Services	225	7,714	-	-	-	-
Interest	3,746	376	40	528	675	373
Other	461	15,561	3,731	190	-	200
Total Revenues	241,039	102,963	3,771	718	675	2,003
<b><u>Expenditures:</u></b>						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	-	-	675
Public Works	133,854	113,014	-	-	-	-
Total Expenditures	133,854	113,014	-	-	-	675
Excess (Deficiency) of Revenues Over Expenditures	107,185	(10,051)	3,771	718	675	1,328
<b><u>Other Financing Sources (Uses):</u></b>						
Operating Transfers In	9,000	31,000	-	-	-	-
Operating Transfers Out	(11,000)	-	-	-	-	-
Total Other Financing Sources (Uses)	(2,000)	31,000	-	-	-	-
Net Change in Fund Balance	105,185	20,949	3,771	718	675	1,328
Fund Balance(Deficit) , July 1	147,657	39,698	5,563	20,242	21,438	9,965
Fund Balance , June 30	\$ 252,842	\$ 60,647	\$ 9,334	\$ 20,960	\$ 22,113	\$ 11,293

<u>E 911</u>	<u>Youth Program</u>	<u>Forrestry</u>	<u>Cable Television</u>	<u>Construction Inspection Engineering</u>	<u>Total</u>
\$ 24,639	\$ -	\$ -	\$ -	\$ -	\$ 341,988
-	-	-	-	111,504	119,443
1,499	472	30	535	986	9,260
-	13,312	-	48,394	-	81,849
<u>26,138</u>	<u>13,784</u>	<u>30</u>	<u>48,929</u>	<u>112,490</u>	<u>552,540</u>
-	16,532	-	53,547	85,150	155,229
10,696	-	-	-	-	11,371
-	-	11,588	-	-	258,456
<u>10,696</u>	<u>16,532</u>	<u>11,588</u>	<u>53,547</u>	<u>85,150</u>	<u>425,056</u>
<u>15,442</u>	<u>(2,748)</u>	<u>(11,558)</u>	<u>(4,618)</u>	<u>27,340</u>	<u>127,484</u>
-	-	12,000	-	-	52,000
-	-	-	-	-	(11,000)
-	-	12,000	-	-	41,000
15,442	(2,748)	442	(4,618)	27,340	168,484
<u>39,756</u>	<u>25,341</u>	<u>773</u>	<u>43,732</u>	<u>2,871</u>	<u>357,036</u>
<u>\$ 55,198</u>	<u>\$ 22,593</u>	<u>\$ 1,215</u>	<u>\$ 39,114</u>	<u>\$ 30,211</u>	<u>\$ 525,520</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2006**

	<u>General Obligation</u>	<u>Northside Special Assessment</u>	<u>Southside Trunk Sewer</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 724	\$ 54,811	\$ 30,543	\$ 86,078
Special Assessments Receivable	<u>-</u>	<u>297,245</u>	<u>735,000</u>	<u>1,032,245</u>
Total Assets	\$ <u>724</u>	\$ <u>352,056</u>	\$ <u>765,543</u>	\$ <u>1,118,323</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Deferred Revenue	\$ -	\$ 297,245	\$ 735,000	\$ 1,032,245
Fund Balance:				
Reserved for Debt Service	<u>724</u>	<u>54,811</u>	<u>30,543</u>	<u>86,078</u>
Total Liabilities and Fund Balance	\$ <u>724</u>	\$ <u>352,056</u>	\$ <u>765,543</u>	\$ <u>1,118,323</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2006**

	<b>General Obligation</b>	<b>Northside Special Assessment</b>	<b>Southside Trunk Sewer</b>	<b>Total</b>
<b><u>Revenues:</u></b>				
Special Assessment	\$ -	\$ 59,093	\$ 10,129	\$ 69,222
Interest	6	1,252	887	2,145
Total Revenues	<u>6</u>	<u>60,345</u>	<u>11,016</u>	<u>71,367</u>
<b><u>Expenditures:</u></b>				
Debt Service				
Principal Retirement	15,000	40,000	-	55,000
Interest, Fiscal Charges	11,920	18,050	16,926	46,896
Total Expenditures	<u>26,920</u>	<u>58,050</u>	<u>16,926</u>	<u>101,896</u>
Excess (Deficiency) of Revenues Over Expenditures	(26,914)	2,295	(5,910)	(30,529)
<b><u>Other Financing Sources:</u></b>				
Operating Transfers In	<u>26,920</u>	<u>-</u>	<u>36,453</u>	<u>63,373</u>
Net Change in Fund Balance	6	2,295	30,543	32,844
Fund Balance, July 1	<u>718</u>	<u>52,516</u>	<u>-</u>	<u>53,234</u>
Fund Balance, June 30	\$ <u><u>724</u></u>	\$ <u><u>54,811</u></u>	\$ <u><u>30,543</u></u>	\$ <u><u>86,078</u></u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Nonmajor Capital Project Funds**  
**June 30, 2006**

	<b><u>Capital Improvement</u></b>	<b><u>Southside Sewer</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 3,095	\$ 489,870	\$ 492,965
Total Assets	<u>\$ 3,095</u>	<u>\$ 489,870</u>	<u>\$ 492,965</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
Liabilities:			
Accounts Payable	\$ -	\$ 31,218	\$ 31,218
Fund Balance:			
Reserved for Construction	<u>3,095</u>	<u>458,652</u>	<u>461,747</u>
Total Liabilities and Fund Balance	<u>\$ 3,095</u>	<u>\$ 489,870</u>	<u>\$ 492,965</u>



**CITY OF MILAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Capital Project Funds**  
**For the Year Ended June 30, 2006**

	<b><u>Capital Improvement</u></b>	<b><u>Southside Sewer</u></b>	<b><u>Total</u></b>
<b><u>Revenues:</u></b>			
Interest Income	\$ 2	\$ 15,601	\$ 15,603
<b><u>Expenditures:</u></b>			
Construction	<u>-</u>	<u>283,303</u>	<u>283,303</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2</u>	<u>(267,702)</u>	<u>(267,700)</u>
<b><u>Other Financing Sources</u></b>			
Operating Transfers Out	-	(31,016)	(31,016)
Proceeds of Long Term Debt	<u>-</u>	<u>735,000</u>	<u>735,000</u>
Total Other Financing Sources	<u>-</u>	<u>703,984</u>	<u>703,984</u>
Net Change in Fund Balance	2	436,282	436,284
Fund Balance - July 1	<u>3,093</u>	<u>22,370</u>	<u>25,463</u>
Fund Balance - June 30	<u>\$ 3,095</u>	<u>\$ 458,652</u>	<u>\$ 461,747</u>

**CITY OF MILAN**  
**Combining Balance Sheet**  
**Non Major Proprietary Funds**  
**June 30, 2006**

	<u>Public Transit</u>	<u>Storm Sewer</u>	<u>Mooreville Sewer</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 24,023	\$ 73,183	\$ 28,838	\$ 126,044
Accounts Receivable	19,437	-	-	19,437
Due From Other Funds	5,000	-	400	5,400
Due From Other Governmental Units:				
Federal	9,515	-	-	9,515
Prepaid Expense	946	78	-	1,024
Total Current Assets	<u>58,921</u>	<u>73,261</u>	<u>29,238</u>	<u>161,420</u>
Property, Plant and Equipment:				
Building	34,590	-	-	34,590
Machinery, Equipment and Vehicles	591,035	-	-	591,035
Less: Accumulated Depreciation	<u>(352,347)</u>	<u>-</u>	<u>-</u>	<u>(352,347)</u>
Net Property, Plant and Equipment	<u>273,278</u>	<u>-</u>	<u>-</u>	<u>273,278</u>
Total Assets	<u>\$ 332,199</u>	<u>\$ 73,261</u>	<u>\$ 29,238</u>	<u>\$ 434,698</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
Current Liabilities:				
Accounts Payable	\$ 5,582	\$ 250	\$ 50	\$ 5,882
Accrued Liabilities	3,753	211	27	3,991
Due to Other Funds	<u>61,827</u>	<u>-</u>	<u>-</u>	<u>61,827</u>
Total Current Liabilities	<u>71,162</u>	<u>461</u>	<u>77</u>	<u>71,700</u>
Equity:				
Invested in Capital Assets, Net of Related Debt	273,278	-	-	273,278
Unrestricted	<u>(12,241)</u>	<u>72,800</u>	<u>29,161</u>	<u>89,720</u>
Total Equity	<u>261,037</u>	<u>72,800</u>	<u>29,161</u>	<u>362,998</u>
Total Liabilities and Equity	<u>\$ 332,199</u>	<u>\$ 73,261</u>	<u>\$ 29,238</u>	<u>\$ 434,698</u>

**CITY OF MILAN**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**Non Major Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Public Transit</b>	<b>Storm Sewer</b>	<b>Mooreville Sewer</b>	<b>Total</b>
<b><u>Operating Revenues:</u></b>				
Intergovernmental-State	\$ 165,754	\$ -	\$ -	\$ 165,754
Intergovernmental-Federal	55,496	-	-	55,496
Intergovernmental-Local	81,902	-	1,598	83,500
Charges for Services	34,692	-	-	34,692
Total Operating Revenues	<u>337,844</u>	<u>-</u>	<u>1,598</u>	<u>339,442</u>
<b><u>Operating Expenses:</u></b>				
Administrative	82,410	-	-	82,410
Routine Maintenance	18,641	-	-	18,641
General Operations	281,969	-	-	281,969
Depreciation and Amortization	102,532	-	-	102,532
Other	-	25,849	2,627	28,476
Total Operating Expenses	<u>485,552</u>	<u>25,849</u>	<u>2,627</u>	<u>514,028</u>
Operating Income (Loss)	(147,708)	(25,849)	(1,029)	(174,586)
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Interest Earned	<u>-</u>	<u>2,276</u>	<u>871</u>	<u>3,147</u>
Income (Loss) before Operating Transfers	<u>(147,708)</u>	<u>(23,573)</u>	<u>(158)</u>	<u>(171,439)</u>
<b><u>Operating Transfers:</u></b>				
Operating Transfer In	42,700	-	-	42,700
Operating Transfers (Out)	(1,000)	-	-	(1,000)
Net Operating Transfers	<u>41,700</u>	<u>-</u>	<u>-</u>	<u>41,700</u>
Net Income (Loss)	(106,008)	(23,573)	(158)	(129,739)
Capital Contributions	76,652	49,600	-	126,252
Fund Equity, Beginning	<u>290,393</u>	<u>46,773</u>	<u>29,319</u>	<u>366,485</u>
Fund Equity, Ending	<u>\$ 261,037</u>	<u>\$ 72,800</u>	<u>\$ 29,161</u>	<u>\$ 362,998</u>

**CITY OF MILAN**  
**Combining Statement of Cash Flows**  
**Non Major Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Public Transit</b>	<b>Storm Sewer</b>	<b>Mooreville Sewer</b>	<b>Total</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers and users	\$ 27,112	\$ -	\$ -	\$ 27,112
Receipts from quasi-external transactions	319,905	-	2,259	322,164
Payments to suppliers	(164,366)	(24,562)	(2,423)	(191,351)
Payments to employees	(229,587)	(5,737)	(127)	(235,451)
Net Cash Provided (Used) by Operating Activities	<u>(46,936)</u>	<u>(30,299)</u>	<u>(291)</u>	<u>(77,526)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Transfer from other funds	42,700	-	-	42,700
Transfer to other funds	(1,000)	-	-	(1,000)
Net Cash Provided by Noncapital Activities	<u>41,700</u>	<u>-</u>	<u>-</u>	<u>41,700</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Proceeds from Capital Charges	76,652	52,000	-	128,652
Purchases of Capital Assets	(71,190)	-	-	(71,190)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>5,462</u>	<u>52,000</u>	<u>-</u>	<u>57,462</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest Earned	-	2,276	871	3,147
Net Increase (Decrease) in Cash and Cash Equivalents	226	23,977	580	24,783
Cash and Cash Equivalents, Beginning	<u>23,797</u>	<u>49,206</u>	<u>28,258</u>	<u>101,261</u>
Cash and Cash Equivalents, Ending	<u>\$ 24,023</u>	<u>\$ 73,183</u>	<u>\$ 28,838</u>	<u>\$ 126,044</u>

**Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:**

Operating Income (Loss)	\$ (147,708)	\$ (25,849)	\$ (1,029)	\$ (174,586)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	102,532	-	-	102,532
(Increase) Decrease in Receivables	(7,580)	-	-	(7,580)
(Increase) Decrease in Due from Other Funds	(3,000)	-	661	(2,339)
(Increase) Decrease in Due from Other Units	19,753	-	-	19,753
(Increase) Decrease in Prepaid Expenses	39	3	-	42
Increase (Decrease) in Accounts Payable	1,356	250	50	1,656
Increase (Decrease) in Accrued Liabilities	(8,208)	(203)	27	(8,384)
Increase (Decrease) in Due to Other Funds	(4,120)	(4,500)	-	(8,620)
Net Cash Provided (Used) by Operating Activities	<u>\$ (46,936)</u>	<u>\$ (30,299)</u>	<u>\$ (291)</u>	<u>\$ (77,526)</u>

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November 7, 2006

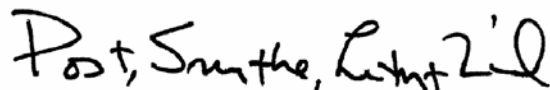
Mayor and City Council  
City of Milan  
Milan, Michigan

In planning and performing our audit of the City of Milan for the year ended June 30, 2006, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated November 7, 2006, on the financial statements of the City of Milan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

### General Fund Balance

The results of operations from fiscal year 2005/2006 showed a current year reduction of \$74,915 which reduced fund balance to \$67,490. This result left the City with fund balance reserve of 1.3% of general fund revenues.

We recommend that the City determine ways to increase this "reserve" to higher levels in the near term. The City has a non diversified tax base, and should have a higher "rainy day" fund than other communities of similar size.

### 2007 Budget

The City Administration is currently reviewing cost reduction and revenue adjustment proposals, including a mid year water and sewer rate increase, necessary to balance the 2006-2007 budget. These significant adjustments are required because revenues from permit fees and capital charges anticipated in the original budget, will likely not occur, and the City has inadequate reserves to cover the apparent shortfalls. Additionally, the City's largest taxpayer has filed another tax appeal which would impact the 2006-2007 fiscal year budgeted revenues, which would result in a significant tax refund, if the taxpayer prevails. This is an additional factor which City Council should consider in its deliberations over the cost reduction/revenue enhancements to be presented by the administration shortly.

We recommend that City Council act on these recommendations as soon as practical to avoid significant disruptions to services and major cash flow issues.

### Accounting Issues

The accounting processes at the City of Milan need additional resources and more formalized processes performed on a consistent basis, to accomplish better interim financial reporting, and timelier year end closings. Our specific suggestions are:

- Expenditures such as accounts payable and payroll should be recorded on the accrual method of accounting – currently the City recognizes expenditures on the cash basis until year end.
- Account Reconciliations – significant balance sheet accounts should be recorded to subsidiary records on a monthly basis. Transit reports and payroll tax filings should be reconciled to the general ledger on a quarterly basis.
- Banks should be reconciled each month on a timely basis; this is a key internal control component.
- Cash receipting process – the City should utilize the centralized cash receipting software process for all cash receipts. Certain deposits are directly deposited to investment accounts, and then recorded through manual journal entries.

- Fixed Asset accounting is currently accomplished using electronic spreadsheets, which is time consuming and prone to error. With the new GASB 34 reporting requirements placing the burden of maintaining records for all City assets on the administrations, we suggest that the City acquire software specifically designed to accomplish the necessary reporting.
- Billing for inspection services was not performed in a timely fashion during the fiscal year. We recommend that the accounting department accomplish the billings (with the review by the Director of Public Services) on a monthly basis, using the accounting software system's automated billing process.
- Accounts Payable processes – during the fiscal year an overpayment occurred (which was detected by the vendor and returned to the City); the approval process for payables needs to be more formalized in order to avoid recurrence. A check request or specific payment authorization should be indicated in the documentation.

#### Other Internal Control Matters

To further improve internal control, and cash flow, we suggest the following:

- Consider "positive pay" which is a service offered by your bank which records pertinent information about each check such as the amount, the check number, bank information and date, and then transmits it to the bank to be verified, before the check can be paid. This will help insure that only authorized payments are paid by the bank.
- Establish a separate accounts payable checking account for larger transactions and limit the dollar amount of the "typical" payable and payroll checks to a specific amount. Your bank offers a service which automatically returns checks unpaid if they exceed a given dollar limit.
- Consider expanded use of regional "lock box" services offered by your bank. "Lock boxes" are post office boxes where City funds are directed through the mail, and deposited into the appropriate (general, tax, and utility) City accounts directly by your bank. These banking services will also work with your accounting software to update customer accounts in an automated fashion. Use of "lock boxes" generally improve internal control, cash flow and can be used to lower administrative costs.
- Study the possibility of third party payroll – the City has significant staff resources committed to accomplishing payroll "in house", which could be "re-deployed" to other areas. Additionally better internal controls generally results as duties are far easier to segregate. And finally, the City's software failed to calculate payroll properly in December of 2005, resulting in more administrative time in correction. Other processes like pension calculation could be automated as well (we noted several errors which were subsequently corrected.)

#### Credit Card Use

City policy requires that all credit card invoices be approved by the City Administrator and Clerk/Treasurer, prior to payment. We could not locate evidence of this approval process on all invoices we reviewed.

We recommend that all credit card invoices be approved by appropriate officials, prior to payment of invoices, and that this approval be evidenced on the check request for payment of the card invoices. We also suggest that the City consider replacing the current credit cards with "Purchase Cards" which are "smart" credit cards that limit purchases to specific dollar amounts or types of services.

#### Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the City as a whole to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid, in the "Entity Wide" financial statements. The new pronouncement is effective for the year ending June 30, 2008, and will require actuarial valuations of the liability at least tri-annually.